

## CITY OF MOUNTAIN VIEW MEMORANDUM

DATE: May 6, 2004

TO: City Council

FROM: Linda DeWald, Real Property Manager

SUBJECT: MAY 11, 2004 STUDY SESSION – CITY-OWNED DOWNTOWN  
PROPERTIES STRATEGY

---

### PURPOSE OF THE STUDY SESSION

The purpose of this study session is to provide information about three City-owned downtown properties, discuss possible goals and objectives, present recommendations and receive initial Council input regarding the recommended strategies.

### RECOMMENDATION

The Council authorize the following strategies regarding City-owned downtown properties:

Commence the initial stages of the disposal process, including economic feasibility studies, land survey, title research and environmental studies, on all three properties as follows:

- **Evelyn Avenue Lot.** Begin the development process as the first priority among the three lots.
- **Villa Street Lot.** Begin the preliminary stages of the process with initial studies. Assess potential opportunities to develop the lot concurrently with the adjacent Dunn property. If codevelopment does not appear realistic in a reasonable time frame, then proceed independently, perhaps concurrently with the Evelyn Avenue Lot.
- **Bryant Street Lot.** Commence initial stages of the disposal process but tailor the schedule to assure the lot is available for parking during construction of the new

parking garage, which is scheduled to open in late summer 2006. Time redevelopment to begin when the parking structure is completed.

## **INTRODUCTION**

This report reviews the potential to accomplish several important objectives with the marketing of the three downtown City-owned properties shown on Exhibit A. These goals include:

- The repayment of loans from City reserves and the Shoreline Regional Park Community for the purchase of portions of two of these properties.
- The generation of revenue, one-time or ongoing, to be potentially used for a variety of purposes, including the purchase of other strategic properties.
- To remove "holes" in the downtown development pattern.
- To spur the development/redevelopment of other underutilized properties in the downtown core.
- To create additional housing to support downtown businesses and overall downtown "vitality" while helping to address housing needs.
- To potentially provide locations for other desired uses downtown.

The report will describe the three properties, including their size and location, the history of their acquisition, the zoning, their development potential and inquiries received from the public. The report will suggest possible goals and objectives based on the zoning and other information and present development strategies. To refine the development strategies, staff will proceed with appropriate specialized studies based on Council's general direction regarding land use preference and goals and objectives for the properties. The results of the studies will be the basis of a targeted development strategy and will be brought back to Council in a follow-up session.

## **BACKGROUND**

The City's surplus land policies adopted by the City Council in 1992 are attached as Exhibit B. They were formulated as a general strategy for all City-owned surplus property. No specific strategy has been adopted by the City Council for the downtown properties located within the Revitalization Authority boundaries. In recent years,

development of downtown City land focused on responding to proposals from adjacent private property owners to assemble private and City-owned property to facilitate redevelopment projects.

A major City goal was adopted for Fiscal Year 2003-04 and assigned to the Public Works Department to "Develop strategies, in coordination with the Community Development Department, for the redevelopment of City-owned downtown properties." This study session is part of the work plan to achieve that goal.

## **ANALYSIS**

### **Property Characteristics**

Summary profiles of the three City-owned downtown properties are presented below and Exhibit A shows their locations on a downtown map. The land use policy and design standards as well as the zoning information were developed during the Phase I update of the Downtown Precise Plan completed in 2001.

#### **A. Evelyn Avenue**

- **Size and Location:** The Evelyn Avenue lot is approximately 45,000 square feet, located at the southeast corner of Evelyn Avenue and Franklin Street. It is directly behind the Tied House and sometimes referred to as the Tied House lot.
- **History:** The City's General Fund purchased this lot in the 1970s for a new Police Services-Fire Administration Building but that complex was ultimately constructed across the street at 1000 Villa Street. The property is designated Parking Lot No. 10 (Temporary). Approximately one-half of the lot is paved, striped for 53 vehicles and signed with three-hour parking limits. The remainder is not improved but is still used for parking; this unpaved portion has a parking capacity for approximately 80 vehicles, bringing the total capacity of the lot to about 133.
- **Zoning:** The Evelyn Avenue lot is in the Downtown Precise Plan Area A, Evelyn Avenue Block, that stipulates:
  - A maximum of four stories;
  - Permitted uses of residential to 50 units per acre; and

- Provisional uses, including:
  - Residential senior to 60 units per acre;
  - Efficiency studios;
  - Hotels;
  - Child-care centers;
  - Parking;
  - Theaters;
  - Entertainment; and
  - Indoor recreation.
- Potential Uses: Housing is the principally permitted use for this property. If the Council decides to pursue a nonresidential use such as a hotel or theater for one of the City-owned downtown properties, the Evelyn Avenue lot may provide the best opportunity. Those uses and other provisional uses listed above would require a use permit. While adjacent residential development fronts 108 Bryant Street to the east, the other adjacent properties are nonresidential: the Robert K. Schatz Police Services-Fire Administration Building is to the west, the Caltrain tracks are to the north and commercial buildings are located to the south on Villa and Bryant Streets. This lot is also closest to the downtown Transit Center, especially from the Evelyn Avenue frontage.

This lot is used for parking and deliveries by the Tied House and other commercial establishments fronting Villa Street. A 20' wide alley currently provides access from Bryant Street. When the Evelyn Avenue lot redevelops, the alley could be extended to accommodate deliveries and retain access to the rear of the Tied House and other commercial uses fronting Villa Street.

The maximum number of housing units that could be constructed on this site, based on the assumed lot square footage, is estimated at 50, or 60 for senior housing as shown on Exhibit C.

- Interested Parties: The Real Property Manager has received an inquiry from the Mid-Peninsula Housing Coalition to purchase the lot for fair market value and redevelop it for 50 units of affordable family housing with below-grade parking. They may be interested in the Villa Street and Bryant Street lots as well but are most aware of the Evelyn Avenue lot. The Economic

Development Manager has also received informal inquiries about the Evelyn Avenue lot and the other two lots from for-profit housing developers.

B. Villa Street

- **Size and Location:** The Villa Street lot is approximately 53,400 total square feet, including approximately 45,000 square feet at the southeast corner of Franklin and Villa Streets and approximately 8,400 square feet in the narrow strip fronting Bryant Street.
- **History:** The City purchased the property at the corner of Franklin and Villa Streets prior to 1951 for Fire Station No. 1, which was demolished following construction of a new station in 1995. The Villa Street/Franklin Street corner is often referred to as the old fire station site.

The City purchased the narrow strip of land providing access to Bryant Street in 1960 to serve the old fire station. The combined old fire station site and the narrow strip are designated Parking Lot No. 11 (Temporary) with three-hour limits. The narrow strip on Bryant Street has 23 spaces and is in the Parking District. The remainder of the lot is striped for 108 spaces and is not in the Parking District.

The remaining portion of the Villa Street lot located mid-block on Franklin Street was purchased in July 1999 by the Revitalization Authority with a \$413,000 loan from the General Fund with interest paid annually and principal paid upon sale of the property. The intent of the acquisition was to assemble the land with the old fire station site for future redevelopment. This area is not paved, striped or signed as a parking lot but is used informally for public parking with capacity for approximately 30 vehicles.

The City's Cardboard Drop-Off Center is currently located on this lot. Staff is reviewing possible relocation alternatives for these dumpsters when the site redevelops.

- **Zoning:** With the exception of the small strip on Bryant Street, the Villa Street lot is in the Downtown Precise Plan Area B, Franklin Street Residential Transition, that stipulates:
  - A maximum of three stories with restricted third-floor roofline;
  - Permitted uses of residential to 30 units per acre;

- Provisional uses of residential senior to 50 units per acre; and
- Provisional uses on the corner, including:
  - Neighborhood retail/ service;
  - Public quasi-public recreational;
  - Educational;
  - Religious;

- Cultural; and
- Public service.

The narrow strip fronting Bryant Street is in the Downtown Precise Plan Area C with permitted uses of residential to 50 units per acre and commercial provisional uses such as retail, restaurants and hotels.

The maximum number of housing units that could be constructed on this site, based on the assumed lot square footage, is estimated at 60, or 70 for senior housing as shown on Exhibit C.

- Potential Uses: Of the three City lots, the Villa Street lot is most oriented to residential land use. To the west are five homes located on Franklin Street and one on the corner at Villa Street. To the east is a new higher-density residential development on Bryant Street. To the north across Villa Street are nonresidential neighboring uses: the Tied House and a commercial building at the Franklin Street corner. To the south is the mixed-use property (Dunn's Automotive), which is also zoned for future residential development.
- Interested Parties: The adjacent property to the south fronting Dana Street and the east fronting Bryant Street is currently improved with a music studio, Dunn's Automotive, two houses and a fenced yard for cars associated with the automotive shop. The current property owner does not have immediate plans to redevelop the property but is open to discussing future redevelopment ideas with the City. The automotive shop lease expires at the end of 2004 but may be extended for at least one year.

C. Bryant Street

- Size and Location: The Bryant Street lot is approximately 63,000 square feet fronting Bryant Street between Mercy and California Streets. This property is one half-block of small parcels assembled over many years.
- History: Nine separate legal parcels make up this half-block. The City has owned three of the parcels for many years, purchasing the first in 1970 to widen California Street. Another parcel fronting Mercy Street was purchased in 1984 from the Revitalization Authority for City storage and a print shop. In 1992, the City's General Fund expanded the ownership by purchasing

another parcel. The intent of these acquisitions was to assemble the land for future redevelopment.

Over several years, the remaining six parcels on the half-block not owned by the City were purchased by Tishman Speyer. From 2000 to 2002, Tishman Speyer leased the City land and constructed a temporary parking lot while their building at 400 Castro Street was built. The lot is now used for public parking. In 2002, the Revitalization Authority purchased all of the Tishman Speyer parcels to complete the assemblage of the half-block. The Revitalization Authority purchase was funded by a \$1,910,000 loan from the Shoreline Regional Park Community to be repaid upon sale or ground lease of the property. The current repayment amount with interest is approximately \$2.1 million.

As shown on Exhibit A, a parcel fronting Franklin Street is deeper than the other Franklin Street lots and juts into the Bryant Street half-block. Tishman Speyer attempted to purchase the property to square off the Bryant Street lot but the Franklin Street owner was not interested. The benefit of acquiring the rear portion of the parcel could be evaluated in a feasibility analysis for the redevelopment of the Bryant Street property if Council wishes.

The Bryant Street parking lot is not in the Parking District, is not listed among the official City lots and is not posted with time limits. The portion closest to Mercy Street is paved and striped for 130 vehicles and the portion fronting California Street is not paved or striped but has capacity for at least 30 vehicles.

- Zoning: The lot is in the Downtown Precise Plan Area C, Bryant Street Mixed-Use Transition, maximum three stories, that stipulates:
  - Permitted uses mid-block of residential to 50 units per acre;
  - Permitted uses at corners, including:
    - Retail;
    - Restaurants;
    - Offices (upper floors);
    - Art galleries;
    - Personal/business service; and
    - Residential to 50 units per acre (upper floors); and



- Provisional uses, including:
  - Residential senior to 60 units per acre;
  - Hotels;
  - Ground-floor office; and
  - Child-care centers.
- Potential Uses: Housing is the principally permitted use for this property with a mix of uses at the corners, including ground-floor retail. It is closest to Castro Street commercial and Civic Center activity and is diagonally across from the new parking garage currently scheduled for construction in 2005 and 2006. The Bryant Street lot, with 160 paved parking spaces, will be a critical parking supply during garage construction.

The maximum number of housing units that could be constructed on this site, based on the assumed lot square footage, is estimated at 70, or 85 for senior housing as shown on Exhibit C.

- Interested Parties: Housing developers who expressed interest in the Evelyn Avenue lot are also interested in the Bryant Street lot. The Bryant Street lot does not offer potential for assemblage with private ownerships because the adjacent parcels are all residential, primarily fronting Franklin Street and owned by individual parties. The Real Property Manager has received an inquiry from TheatreWorks for a cultural arts use of this lot. TheatreWorks wishes to consolidate their administrative offices, rehearsal spaces and shop/costume construction in one location as close to the Mountain View Center for the Performing Arts as possible within the next five years. TheatreWorks would also like to include parking and retail and performance support space to expand revenue-generating opportunities.

## **Goals and Objectives**

The downtown property disposal strategy should reflect the Council's objectives for land use and any specific Council goals, such as revitalizing downtown, maximizing revenue, adding housing, coordinating with adjacent private redevelopment or other community values. Although these goals are not necessarily mutually exclusive, the Council may wish to rank them or amend the list to provide staff guidance.

### **1. Revitalize Downtown**

If the Council's main objective is downtown revitalization, then the marketing process could be weighted toward redevelopment proposals with the most potential to add energy to downtown. All three properties are zoned residential with some opportunity for ground-floor retail and alternative uses. Adding housing will help bring full-time vitality to downtown and ground-floor retail could enhance the residential experience. Also, other uses with potential to revitalize downtown are allowed on one or more of these sites, including hotel, efficiency studio, child care, art gallery and theater.

### **2. Maximize Revenue**

If one-time or ongoing revenue generation or repaying loans is an overriding Council consideration, the development process can be designed to maximize monetary or other considerations. Disposition of these properties provides the City's General Fund and the Revitalization Authority with revenue from land proceeds and property tax revenues. The Revitalization Authority would receive 100 percent of the property tax increment until April 2009 when the Authority sunsets. Tax revenues in excess of existing debt service will be distributed to property tax recipient agencies, and the City General Fund share will be approximately 15 percent.

The following land values are estimates based on recent experience and submitted for discussion purposes.

- **For-Sale Land Value:** The current estimated range of land value for the three City properties is \$60 to \$80 per square foot or \$2.6 million to \$3.5 million per acre and may ultimately be greater. Using the 2002 Tishman Speyer transaction as a guide at \$65 per square foot, the approximate value of the Evelyn Avenue lot is nearly \$3.0 million, the Villa Street lot is nearly \$3.5 million and the Bryant Street lot is about \$4.0 million; all three total \$10.5 million.

- Rent: Ground-lease rent for a property can be calculated by multiplying the land value by an annual rate of return. An estimated range of return is 6 percent to 8 percent with 7.0 percent or 7.5 percent common. Based on a land value of \$65 per square foot and a 7.0 percent or 7.5 percent return, the combined annual rent to the City from all three properties would be about \$750,000 per year.

A consideration in calculating revenue projections is the existing debt on the properties. The Villa Street lot and the Bryant Street lot together owe loan repayments of about \$2.5 million. Currently, the Villa Street lot owes \$413,000 to the General Fund and the Bryant Street lot owes approximately \$2.1 million to the Shoreline Regional Park Community. Based on current loan balances and ownership status, if all properties were sold today at the current estimated value, in round numbers the net revenue would be about \$8 million to the General Fund and \$2 million to the Shoreline Regional Park Community. The Revitalization Authority's share would only be about \$140,000 due to the outstanding loans.

### 3. Affordable Housing

The 2002 General Plan Housing Element includes a policy that states, "Evaluate surplus City properties to determine their suitability for affordable housing." Further, the Element action states, "Specifically include consideration of affordable housing when reviewing City properties that are to be declared surplus." The Housing Element was adopted on December 10, 2002 after a two-year public review process.

Additionally, every new residential development includes a 10 percent below-market-rate requirement so the Council's action creating housing on these lots will create new affordable units or an in-lieu fee to the City's Housing Fund.

### 4. Hold for Possible Private Development

The Council may chose to hold one of the properties for possible future integrated redevelopment, land exchanges and/or joint development with the adjacent private property owner. In the past, the City has held downtown City-owned land until adjacent private property redeveloped. For example, in 1998, the City Council authorized the sale of two City-owned properties for incorporation into the condominium development on Bryant Street between Evelyn Avenue and Villa Street.

Of the three downtown properties under consideration, the Villa Street lot is the only site that fits into this category. The Villa Street lot is next to property owned by Charles and Yvonne Dunn and includes an automotive shop and older homes, which could redevelop in the next several years. However, there is no assurance coordinated efforts will materialize and holding the Villa Street property would preclude near-term benefits of redevelopment. The adjacent uses on the Evelyn Avenue and Bryant Street lots do not seem compatible with this goal. On Evelyn Avenue, all adjacent lots are built-out.

5. Other Council Objectives

The development process could also accommodate alternate uses or objectives the Council identifies. Examples include educational, cultural or public service uses. Should Council choose a use that is less appealing or profitable to developers, the City may need to discount the sale price or ground-lease rent. Staff will study this alternative if it emerges as an option and report back at a later date.

**Phasing Property Development: Downtown Impacts**

Development of the downtown properties may have impacts during construction, especially if two or three properties are developed concurrently. While there are efficiencies and economies in offering all three properties at the same time, there are other factors that should be considered, including parking supply and the availability of construction staging areas.

Parking

While maintaining the three properties as surface parking could be considered an economic underutilization of valuable assets, downtown business owners and their patrons are accustomed to the availability and convenience of the City properties for temporary parking lots. Together they contain about 400 to 450 parking spaces. Concurrent redevelopment would reduce the current parking supply and could contribute to temporarily disrupting traffic flow as motorists search for new parking areas and construction possibly limits access to some streets. Should the City pursue redevelopment, a phased development process would stagger parking reductions and allow time for construction of the new parking structure at California and Bryant Streets in 2005-06, making up for some of the lost parking. The new structure will add over 400 spaces but will temporarily eliminate 104 surface spaces during construction. The nearby Bryant Street lot with 160 spaces will be a critical parking supply while the garage is under construction. For this reason, staff recommends the Bryant Street lot be

developed after the new garage is open, though planning and marketing can proceed concurrently prior to completion of the garage.

### Construction Staging

Redevelopment of each lot will require a construction staging area and simultaneous development may result in developers competing for a limited amount of staging area. To avoid this circumstance, Council may wish to delay development of at least one of the lots or redevelop the properties in stages to lessen this impact.

### Ultimate Type of Transaction: Sale versus Ground Lease

The marketing strategy will depend on whether the City Council prefers to lease or sell each property. Public agencies can generally benefit by ground leasing because leasing creates a long-term income stream with the property reverting back to the public agency at the end of the lease term.

All three City-owned downtown properties are zoned for high-density residential. While some ownership housing exists on ground-leased land, it is generally not preferred and the trend is to convert such arrangements so homeowners or homeowners associations own the land. Homebuyers expect to own the land their residences are on and their reluctance to accept only a leasehold typically inhibit sales and resales.

Additionally, developer financing and marketing costs on leased land may be higher. City costs could also be higher through administering the ground-lease, developing and monitoring homeowners association Covenants Conditions and Restrictions (CC&Rs), enforcing City land rights, collecting rent, monitoring insurance certificates and enforcing tenant defaults.

Finally, the City's public liability would continue and tenants or homeowners in ground-leased facilities may appeal grievances directly to the Council.

### Overview Process: Specialized Studies

The City has not developed major City-owned properties in the downtown area in many years and is not familiar with market positions and processes to the extent required for successful redevelopment. Information collected from specialists prior to and following property offerings will be necessary to guide the City's efforts, including economic feasibility studies, surveys, environmental studies, appraisals and legal

services. These studies will provide essential data for Council decision-making and are discussed in more detail in Exhibit D.

### **Possible Disposition Strategy**

The primary purpose of the study session is to present information to the City Council and receive feedback to enable staff to draft a more final redevelopment strategy. The strategies presented below will be refined after review of the findings presented in the economic feasibility study.

1. **Goals and Objectives:** Allow redevelopment consistent with the Precise Plan to meet a number of objectives, including maximizing revenue. Consider holding one lot as a potential affordable housing project site.
2. **Redevelopment Priorities:** Commence the initial stages of the disposal process, including economic feasibility studies, land survey, title research and environmental studies, on all three properties.
  - **Evelyn Avenue Lot.** Begin the development process as the first priority among the three lots.
  - **Villa Street Lot.** Begin the preliminary stages of the process with initial studies. Assess potential opportunities to develop the lot concurrently with the adjacent Dunn property. If codevelopment does not appear realistic in a reasonable time frame, then proceed independently, perhaps concurrently with the Evelyn Avenue Lot.
  - **Bryant Street Lot.** Commence initial stages of the disposal process but tailor the schedule to assure the lot is available for parking during construction of the new parking garage, which is scheduled to open in late summer 2006. Time redevelopment to begin when the parking structure is completed.
3. **Sale or Ground Lease:** Either sell or ground lease each property. Council may wish to sell one or more properties and ground lease one or more properties; it is not necessary to sell all or ground lease all three properties.
4. **Overview Process:** Commence initial studies on all properties after funding approval through the Capital Improvement Program (CIP).

Alternatively, the City Council could decide not to move forward on a redevelopment strategy at this time.

**NEXT STEPS**

If the City Council directs staff to proceed and provides funding through the CIP process, staff will commence initial studies and return to the City Council with a more defined strategy for further Council consideration this fall.

**PUBLIC NOTICING** – Notices to neighbors adjacent to properties and agenda posting.

Prepared by:

Approved by:

Linda DeWald  
Real Property Manager

Cathy R. Lazarus  
Public Works Director

Reviewed by:

Kevin C. Duggan  
City Manager

Joan Jenkins  
Transportation and Policy Manager

LDeW/JJ/6/CAM/907-05-11-04M-E^

Attachments: Exhibit A: Map  
Exhibit B: City Surplus Land Policies  
Exhibit C: Housing Units  
Exhibit D: Professional Services

cc: Mid-Peninsula Housing Coalition  
658 Bair Island Road, Suite 300  
Redwood City, CA 94063

TheatreWorks  
Attention: Mr. Randy Adams  
P.O. Box 50458  
Palo Alto, CA 94303-0458

Downtown Committee

CDD, PM(A), EDM, ANSM, CSD, File